

Information on Washington's Tax Structure



Retail Sales Tax

The information contained in this fact sheet is current as of the date of this publication and provides general information about the retail sales tax. It does not cover every aspect of the tax. In addition, it does not alter or supersede any administrative regulations or rulings issued by the Department.

RETAIL SALES TAX

The retail sales tax is Washington's principal tax source. Together with the related use tax, they produced over \$5.9 billion in state revenue during Fiscal Year 2001, which represented nearly 50 percent of state taxes deposited into the general fund. In addition, local retail sales and use taxes generated \$1.7 billion for local governments. The local sales tax is an important funding source for local government programs, second only to the property tax.

DEFINITION OF RETAIL SALE

State law defines which activities are subject to the retail sales tax. Generally, all purchases of tangible personal property by consumers for their own use are considered retail sales. In addition, a variety of services are defined as retail activities, such as:

- ◆ Improving real or personal property;
- ◆ Amusement and recreational businesses;
- ◆ Lawn maintenance; and
- ◆ Physical fitness activities.

Personal and professional services are generally excluded from sales tax.

NOTE: A buyer who purchases goods for resale may give the seller a Resale Certificate. Such sales are considered wholesale sales, and are not subject to sales tax. A sample of the Resale Certificate is shown on page five.

The following transactions are just a few examples of retail sales subject to sales tax.

Construction Services:

- ◆ Installing, repairing, cleaning, improving, constructing, and decorating real or personal property for consumers;
- ◆ Constructing and improving new or existing buildings and structures;
- ◆ Cleaning, fumigating, razing or moving structures, including painting and papering, cleaning and repairing furnaces and septic tanks, and snow removal;
- ◆ Clearing land and moving earth;
- ◆ Charges for materials used by public road contractors and other government contractors while constructing or repairing interstate highways and county and city roads;
- ◆ Charges for materials used by contractors while constructing or repairing structures for the federal government and local housing authorities;
- ◆ Landscape maintenance and horticultural services (excluding farmers); and
- ◆ Renting equipment with operator.



Personal Services:

- ◆ Physical fitness activities;
- ◆ Tanning;
- ◆ Tattooing;
- ◆ Turkish and steam baths, including hot tubs;
- ◆ Dating and escort services; and
- ◆ Charges for lodging and the use of real property for periods of less than 30 consecutive days from hotels, motels, and similar establishments that provide accommodations.

Recreation Services:

- ◆ Amusement and recreational businesses, including golf, billiards, bowling, and similar participatory activities;
- ◆ Service charges on tickets to professional sporting events; and
- ◆ Day trips for sightseeing.



Miscellaneous Services:

- ◆ Towing and parking automobiles;
- ◆ Renting or leasing tangible personal property;
- ◆ Competitive and network telephone services;
- ◆ Charges by abstract, title insurance, escrow, and credit bureau businesses, including tenant screening services.

TAX RATE

Retailers collect the combined state and local retail sales tax from their customers. The state retail sales tax rate is 6.5 percent. Local retail sales tax rates range from 0.5 to 2.0 percent and may contain the following elements:

- ◆ Basic 0.5 percent city/county tax effective in all areas of the state;
- ◆ “Optional” city/county tax of up to 0.5 percent;
- ◆ Public Transportation Benefit Area (PTBA) tax to support local transit systems of up to 0.9 percent;
- ◆ Criminal justice tax of 0.1 percent imposed in certain counties with voter approval;
- ◆ Public facilities district tax of 0.1 percent to fund sports/entertainment centers; and
- ◆ A 0.1 percent tax to fund construction of county correctional facilities with voter approval.

Other taxes that can add to the sales tax due are:

- ◆ Regional Transit Authority (RTA) tax of 0.4 percent collected on sales made in parts of King, Pierce, and Snohomish Counties;
- ◆ King County Food and Beverage tax of 0.5 percent collected on food and beverage sales in King County by restaurants, taverns, and bars; and
- ◆ Rental Car Tax.

DISTRIBUTION OF RETAIL SALES TAX

The state tax portion of the sales tax is deposited in the state general fund, while city and county taxes are returned to the local governments. City and county governments use these taxes for general expenditure programs. The transit and other specifically designated taxes must be used to operate the specific program(s) they fund.

Local revenues are returned to taxing districts based on the location of the sale. For sales occurring within cities, the county government receives 15 percent of both the basic and optional local sales taxes (if it levies the same rate of tax as the city), while the city receives 85 percent of the local tax receipts. Counties receive all the local revenue for sales in unincorporated areas. As reimbursement for the cost of collection, the Department of Revenue retains 1.0 to 1.5 percent of local taxes collected.

LOCAL CODING OF SALES

Retailers must report state and local sales tax collections on the *Combined Excise Tax Return*. To ensure local governments receive the correct amount of local taxes, retailers must code their sales according to the locations in which retail sales are made.

Sales of goods and merchandise are coded to the location of the retail outlet from where the purchase or delivery is made. For most retailers, this is the place of business. However, businesses making deliveries from their warehouses directly to customers will use the warehouse location for local tax coding and rate purposes. If a buyer picks up the item, the sale is coded to the retail outlet where the item was picked up. **Labor and services** are coded according to where they are primarily performed. If an installation charge is normally added to the cost of an item, the entire charge is coded to the site where the installation is performed.

If goods are delivered into Washington from outside the state and a local in-state facility, office, outlet, agent or other representative participates some way in the transaction, the location of the local in-state facility, etc., determines the place of sale for local sales tax purposes. If there is no local Washington facility, etc., the location of the customer determines the location code.

The local sales tax rate for the **lease or rental of tangible personal property** depends on whether the lease/rental involves periodic payments. If a single payment is made, the lessor's place of business determines the application of the local tax. If the item is leased for an extended period of time and the lessee contracts to make periodic payments, the local sales tax is coded to the primary place of use. (See WAC 458-20-145 for additional guidance on determining local sales tax rates.)

To help businesses correctly report their local sales tax, the Department mails the *Tax Return Information and Local Sales and Use Tax Changes* flyer each quarter with the tax return. The flyer lists all local jurisdictions, their location codes, and the current local tax rates.

The Department of Revenue's **Geographic Information System (GIS)** can assist you with determining the correct local sales tax rate for a specific location. GIS automatically searches for and identifies the proper location code and tax rate when you enter the U.S. Postal Service address. For locations in King, Pierce, and Snohomish counties, GIS also identifies if the location is within the RTA boundaries. GIS is available through the Department's Internet web site at <http://dor.wa.gov>.

SALES TAX EXEMPTIONS

The following list provides a brief explanation of some of the most common exemptions from the retail sales tax.

- ◆ **Family Consumer Expenditures** – Many items consumed by families are exempt from the retail sales tax including: food products for human consumption, prescription drugs, hearing aids and parts prescribed by licensed dispensers, and newspapers. (WAC 458-20-143; -18801; -244)
- ◆ **Fuel** – The retail sales tax does not apply to certain purchases of motor vehicle fuel, including fuel (1) used in aircraft for research, development, and testing purposes; (2) purchased for public transportation purposes; (3) purchased by a certified private, nonprofit transportation provider; or (4) taxable under the motor vehicle or special fuel tax. (WAC 458-20-126)



- ◆ **Federal Government Sales** – Direct purchases by the federal government, including sales to a foreign government or to any department thereof, and sales by the military on federal bases. (WAC 458-20-190)
- ◆ **Interstate and Foreign Commerce** – Persons engaged in the business of operating as a private or common carrier by air, rail, or water in interstate or foreign commerce have specific exemptions from the retail sales tax, as do for-hire motor carriers operating in interstate or foreign commerce. (WAC 458-20-174; -175)
- ◆ **Interstate and Foreign Sales and Sales to Nonresidents** – All sales of goods delivered to buyers outside Washington are exempt from the retail sales tax. Likewise, sales of items for use in Alaska, Hawaii, and noncontiguous US territories are exempt, if delivered for direct shipment out of state. In addition, sales of products in Washington for use outside Washington to residents of states, Canadian Provinces, or US territories that impose a sales tax of less than three percent are exempt. (See *Excise Tax Advisory 316.08.193* for a list of qualifying states, provinces, and territories.)
- ◆ **Manufacturers' Machinery and Equipment Exemption** – Sales of machinery and equipment, including cogeneration and pollution control equipment, and repair and replacement parts having a useful life of at least one year, used directly in a manufacturing operation are exempt from sales tax. This exemption also applies to labor and services involved in the installation, repair, and maintenance of the machinery and equipment. (WAC 458-20-13601)
- ◆ **Nonprofit Organizations** – Certain qualified nonprofit organizations may be exempt from the retail sales, business and occupation, and/or property taxes. (WAC 458-20-169; -249)
- ◆ **Sales to Indians or Indian Tribes** – Sales of tangible personal property are exempt when delivered to tribal members on tribal lands or retail services are exempt when performed on tribal lands for tribal members. (WAC 458-20-192)

CREDITS

Bad Debt Tax Credit (Schedule B):

A Bad Debt Credit is allowed for retail sales tax that has been remitted to the Department, but has become worthless or uncollectible and written off for Federal Internal Revenue Service (IRS) purposes. Completion of Schedule B is necessary if the sales tax rate at the time of sale is different from the rate on the tax return. (WAC 458-20-196)

DEFERRALS

Distressed Area Sales/Use Tax Deferral Program:

Grants a deferral of sales/use tax for manufacturing, research and development, or computer-related businesses (excluding light and power businesses) locating in specific geographical areas. The sales/use taxes on qualified construction and equipment costs are waived when all qualifications are met for a specified period of time. The program expires on July 1, 2004. (See *Information on Washington's Tax Structure – Distressed Areas Sales/Use Tax Deferral Program*; WAC 458-20-24001.)

High Technology Sales/Use Tax Deferral:

Businesses in certain research and development technology categories may be eligible for this deferral. To be eligible, they must start new research and development or pilot scale manufacturing operations, or expand or diversify an existing facility anywhere in Washington. The technology categories are:

- ◆ Advanced computing;
- ◆ Advanced materials;
- ◆ Biotechnology;
- ◆ Electronic device technology; and
- ◆ Environmental technology.

(See *Information on Washington's Tax Structure – High Technology Sales/Use Tax Deferral*.)

SALES TAX COLLECTION PROCEDURES

Businesses report state and local retail sales tax on the *Combined Excise Tax Returns* on a monthly, quarterly, or annual basis depending on the reporting frequency assigned.

Tax liability must be reported for all sales made during the reporting period on either an accrual or cash receipts accounting basis. Retailers are liable for remitting the correct amount of tax, even if they did not collect the proper amount from the purchaser. All amounts collected are considered to be trust funds of the state.

Retail sales tax applies to the selling price of taxable transactions and must be separately stated on the billing to the customer. The advertised price may include the amount of tax, if the statement "sales tax included" is clearly indicated in the advertisement.

Sales tax rate charts indicating the amount of combined state and local tax for each selling price are available on our web site or by calling our Telephone Information Center or local offices.

FOR MORE INFORMATION

We have a number of resources available to assist you.

- ◆ Our web site at <http://dor.wa.gov> provides all the publications and tax rules noted in this publication, as well as tax returns, up-to-date information on the latest tax changes, and answers to frequently asked questions.
- ◆ Call or visit any of our 12 field offices located statewide. See the back page for locations and numbers.
- ◆ Call our toll-free Telephone Information Center for numerous automated services or to ask your questions.
- ◆ Write to us at:
Taxpayer Information and Education
Washington State Department of Revenue
PO Box 47478
Olympia, WA 98504-7478
FAX (360) 486-2159



RESALE CERTIFICATE

1. Name of Seller: _____
2. Name of Buyer/Business: _____
3. Address of Buyer: _____
Street City, State Zip Code
4. Buyer's UBI/Revenue Registration Number: _____
5. Buyer is in the business of: _____
6. Types of items purchased for resale: _____

The buyer certifies that it is purchasing the items listed on line 6 (please check appropriate box):

- ☐ *for resale in the regular course of business without intervening use.*
- ☐ *for use as an ingredient or component part of a new article of tangible personal property to be produced for sale,*
- ☐ *as a chemical to be used in processing a new article of tangible personal property to be produced for sale, or*
- ☐ *for use as feed, seed, seedlings, fertilizer, or spray materials in its capacity as a farmer.*

*The buyer acknowledges that it is solely responsible for purchasing within the categories listed on line 6. The buyer acknowledges that misuse of the resale privilege subjects the buyer to a **penalty of 50 percent of the tax due**, in addition to the tax, interest, and any other penalties imposed by law.*

Print Name: _____
Name of Person Authorized By the Buyer to Sign the Resale Certificate

Signature: _____
Signature of Authorized Agent of the Buyer

Effective Date: _____ through _____
(Not To Exceed 4 Years)

Date Signed: _____

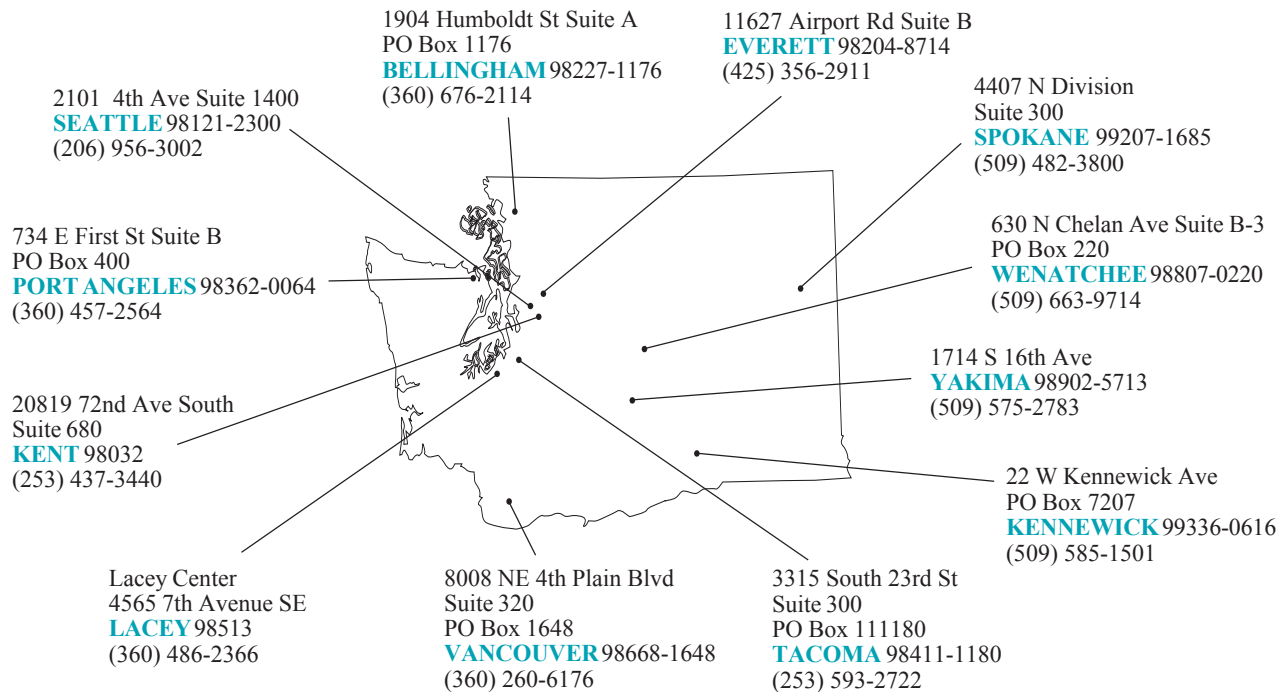
Seller must maintain a copy. ***Please do not send to Department of Revenue.***
Reference Rule and Statute (RCW 82.08.130 and WAC 458.20.102)

Department of Revenue Taxpayer Assistance



<http://dor.wa.gov>

FIELD OFFICE LOCATIONS



Telephone Information Center
1-800-647-7706

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